

Memorandum

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Be energy efficient!*

To: RHONDA M. PILE
Service Contracts Analyst
Division of Procurement & Contracts

Date: January 4, 2008

File: P1400-2632

From: MARYANN CAMPBELL-SMITH
Chief, External Audits
Audits and Investigations

Subject: Postaward Audit – Towill, Inc.

We have audited Towill, Inc.'s (Consultant) proposed costs under Agreement 04A2705 with the Department of Transportation (Department) to determine whether the proposed costs are reasonable in relation to actual historical costs and estimating procedures, and whether the Consultant's financial management system is adequate to accumulate and segregate reasonable, allocable and allowable project costs. We also reviewed the agreement to assess whether the required fiscal provisions are included.

The Consultant management is responsible for the fair presentation of the proposed costs, ensuring compliance with contract provisions and state and federal regulations, and that the financial management system maintained by the Consultant is adequate to accumulate and segregate reasonable, allocable and allowable costs.

Our audit was conducted in accordance with the Performance Standards set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the Consultant. Therefore, we did not audit and are not expressing an opinion on the Consultant's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records audited are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made by the Consultant management, as well as evaluating the overall presentation.

The Consultant shall perform professional, technical and conventional Land Surveying services in Alameda and Contra Costa (East Bay) Counties. Services will be provided on an "as needed" basis to support the development and construction of proposed State transportation facilities. The total amount of the agreement shall not exceed \$2,000,000. Reimbursement is to be made at specified rates to the following consultants:

Towill, Inc. (Prime)
Espinosa Surveying*
Subtronic*

* - Audit waived.

The scope of the audit was limited to financial and compliance activities related to the above referenced agreement. The audit consisted of verifying the proposed costs and an assessment of the accounting principles used, and significant estimates made by the Consultant; as well as, an evaluation of compliance with Code of Federal Regulations (CFR) 49, Part 18 and CFR 48, Chapter 1, Part 31. This audit included a full scope audit of the Consultant. We reviewed the agreement, interviewed applicable personnel, and performed limited tests on the Consultant's financial management system and proposed costs as of June 5, 2007. Financial management system and cost proposal changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We did not audit or examine the proposed indirect rates since a postaward audit is significantly less in scope than an incurred cost audit or examination. We reviewed the proposed indirect rates for the purpose of accepting contract progress billings.

Due to inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any audit of the financial management system to future periods are subject to the risk that the financial management system may become inadequate due to changes in conditions, or the degree of compliance with policies and procedures may deteriorate.

The results of the audit were communicated with Dennis Curtin, President, Janis Loucks, Vice President of Finance and Administration, Norah Berchtold, Accounting Supervisor, Randy Smith, Project Manager, Towill, Inc., Bo Yuan, Department Contract Manager, Mohammad Maljai, Department Contract Negotiator and Rhonda M. Pile, Department Service Contracts Analyst on December 5, 2007. The findings take into consideration information provided by the Consultant as of September 20, 2007. The Consultant concurred with all findings and recommendations. Our findings and recommendations are set forth in the Attachment to this report.

CONCLUSION

Based on our audit work, we found the required fiscal provisions are included in the agreement. In addition, the Consultant's proposed costs are reasonable in relation to actual historical costs and estimating procedures and the Consultant's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs, except as noted in the Attachment to this report.

Rhonda M. Pile
January 4, 2008
Page 3

This report is intended solely for the information of the Department and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited.

Please forward a copy of the revised agreement and cost proposal to Audits and Investigations. If you have any questions, please contact Linda Laubinger, Audit Manager, at (916) 323-7957.

ORIGINAL SIGNED BY:

Evajuani D. Bynum
Auditor

Approved:

ORIGINAL SIGNED BY:

MARYANN CAMPBELL-SMITH
Chief
External Audits

Attachment

c: Jan Smelser, Chief, DPAC
Bo Yuan, Consultant Services Unit, D4
P1400-2632

ATTACHMENT
Postaward Audit Findings and Recommendations
Agreement No.: 04A2705

Towill, Inc.

Finding 1

The proposed labor rate for Gene Clayton was misstated as follows:

<u>Proposed Rate</u>	<u>Evaluated Rate</u>
\$58.00	\$56.00

Recommendation: We recommend the cost proposal be revised to reflect the evaluated hourly rate for Gene Clayton.

Finding 2

Employees have not been hired to work in the Apprentice 3 and Apprentice 4 classifications; therefore, we were unable to determine the reasonableness of the proposed rates.

Recommendation: We recommend the actual hourly rates be verified for employees identified for each classification.

Finding 3

The escalation dates proposed for five classifications are misstated. Rate increases should occur annually and begin one year after the employee's last increase. Annual rate increases are as follows:

<u>Classifications</u>	<u>Current Effective Date of Hourly Rate</u>		<u>Evaluated Effective Date of Hourly Rate</u>	
	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>
Project Manager, Project	11/16/06	06/30/07	11/16/06	09/30/07
Principal, Office	07/01/07	06/30/08	10/01/07	09/30/08
Surveyor, Geodetic	07/01/08	06/30/09	10/01/08	09/30/09
Engineer & CAD Technician	07/01/09	06/30/10	10/01/09	06/30/10

Recommendation: We recommend the cost proposal be revised to reflect the evaluated effective date of hourly rate increases for the specified classifications.

Finding 4

The proposed indirect rate of 165.50 percent is misstated. The evaluated indirect rate is 163.72 percent for fiscal year ending December 31, 2005.

ATTACHMENT
Postaward Audit Findings and Recommendations
Agreement No.: 04A2705

Recommendation: We recommend the cost proposal be revised to reflect the evaluated indirect rate of 163.72 percent for fiscal year ending December 31, 2005.

Finding 5

Employees are not identified and labor rates for four prevailing wage classifications are misstated. The labor rates in the cost proposal include fringe benefits which are already accounted for in the consultant's indirect rate.

	Proposed	Evaluated
<u>Classification</u>	<u>Rate</u>	<u>Rate</u>
Certified Party Chief	\$39.36	\$36.16
Chainman	32.35	29.15
Instrument Man	35.23	32.03
Party Chief	38.32	35.12

Recommendation: We recommend the cost proposal be revised to the evaluated rates above, and actual hourly rates be verified when employees are identified in each prevailing wage classification.

ATTACHMENT
Postaward Audit Findings and Recommendations
Agreement No.: 04A2705

DPAC

The consultant accepted an indirect rate of 124.19 percent for 1.5x billings, and 103.54 percent for 2.0x billings at the time of contract execution. Based on our analysis, the consultant developed one general overhead rate, evaluated at 163.72 percent for fiscal year ending December 31, 2005.

Recommendation: This is for information purposes only.